PENSIONS &
InvestmentAge
the newspaper of corporate and institutional investing

Indexers win big in '88

Wells Fargo, State Street surge to top

By Trudy Ring

Wells Fargo Investment Advisors and State Street Bank & Trust Co. gained the most new business in 1988, outpacing the closest competition by at least $4.5 billion.

These managers were propelled to the top on the strength of their indexing accounts, according to *Pensions & Investment Age*'s Scorecard survey, which covers net asset growth during the 12 months ended Dec. 1. Managers were asked to quantify contributions from new clients, additional contributions from existing clients and market gains or losses.

Overall net growth includes market gains or losses. Net growth figures for each asset category include only contributions (net of withdrawals) from new and existing clients.

Of the 292 survey respondents, 34 declined to provide client names and were not included in the rankings. Managers were asked to provide client names and were allowed to stipulate that any or all of the names not be published.

Wells Fargo, San Francisco, took top honors among large firms — those with more than $1 billion in total assets under management — with overall net growth of $11.8 billion. About $8 billion of that came from increased allocations from existing clients.

Scorecard charts and stories, page 4.

The firm is prominent in both indexing and tactical asset allocation. Many clients started with Wells Fargo for a Standard & Poor's 500 Stock Index fund, then retained the firm for specialized stock indexing, bond indexing, foreign indexing or tactical asset allocation, said Patricia Dunn, president. "As all of those prod-

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ScoreCARD

Wells Fargo Investment	11.84
State Street Bank	8.16
Mellon Capital	3.6
Bankers Trust	3.1
Metropolitan Life	3.07

S&P 500 stocks lose edge over non-index issues

By Joel Chernoff

After producing superior returns for nearly a decade, stocks in the Standard & Poor's 500 Stock Index lagged non-index companies with similar characteristics by 360 basis points last year.

The shift was steady throughout the year. "If there was an S&P 500 bubble, it seems to be deflating rather than bursting," said William Jacques, chief investment officer of Martingale Asset Management, Boston. Martingale and BARRA, a Berkeley, Calif.-based consulting firm, developed the data.

Martingale and BARRA speculated a combination of factors had produced superior returns for S&P stocks from 1980 through 1987, amounting to an average annual four percentage-point advantage.

William Jacques says S&P 500 stocks lost some of their gleam last year.

Officials of the firms suggested the growing use of indexed funds, development of derivative instruments, program trading strategies and flows of foreign assets into "name brand" stocks had driven billions of dollars into S&P stocks, giving them an edge over stocks of equivalent

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Japanese door ajar

Access to pension assets a possibility

By Barry B. Burr

TOKYO — For the first time, both foreign and domestic investment advisers would be allowed to manage a very restricted part of Japanese corporate pension fund assets under a proposal now before the Diet.

The Japanese corporate fund market, estimated to be more than 18.25 trillion yen, or about $141.2 billion, heretofore was the sole preserve of trust and insurance companies.

The limited deregulation — proposed by the Ministry of Finance in January — also would permit certain Japanese pension funds to run part of their assets in-house.

The proposal requires the investment advisers to run balanced portfolios only and limits in-house management to debt investments.

Only new cash flow could be placed with investment advisers or in-house management. The existing $141.2 billion in assets would remain with trusts and insurers.

If adopted as expected by the Diet, Japan's parliament, the proposal would open part of the Japanese corporate pension fund market to the 127 advisers, including 31 foreign firms, registered under a 1986 investment advisory law. A Ministry of Finance official based in New York who asked not to be named said it is possible the Diet would enact the law as early as spring.

The proposal was outlined Jan. 19. It would be the first major relaxation of restrictions since 1985, when Japan allowed nine foreign banks to join the Japanese trusts and insurers in managing pension assets.

"Don't jump to the conclusion that the Japanese market is suddenly going to be liberalized," said Peter Dietz, representative director of Frank

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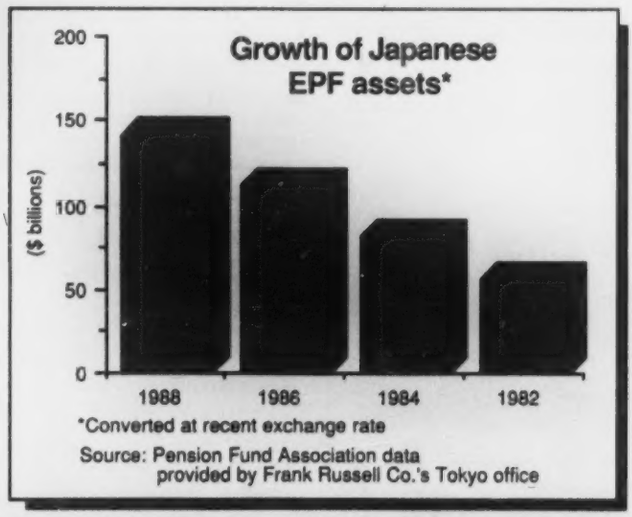

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LATE NEWS

Valero sets up leveraged ESOP

SAN ANTONIO, Texas — Valero Energy Corp. will borrow $15 million to finance the purchase of approximately 1.4 million shares of its common stock for a newly established leveraged employee stock ownership plan.

The Valero board of directors authorized the company to borrow the $15 million under a 10-year loan to buy about 5% of the 28 million common shares outstanding. According to a statement, ESOP contributions will be financed through corresponding reductions in contributions to an existing thrift plan.

Wilshire starts international unit

SANTA MONICA, Calif. — Wilshire Associates has opened an international consulting division that will be headed by Lawrence E. Davanzo, former head of the 70-client domestic consulting division.

Replacing Mr. Davanzo at the domestic consulting division, which advises plans with a total of about $200 billion in assets, is Stephen L. Nesbitt, who has been promoted to partner.

Mr. Davanzo, who remains a senior vice president and partner at Wilshire, said the new international division will help companies from Japan, elsewhere in the Far East and Europe with strategic asset strategies, including management of foreign cash flows into the United States, and help foreign money managers prepare for the deregulation of Japanese pension funds.

The division also will help some of the 127 Japanese investment managers better understand practices and needs of U.S. employee benefit funds investing abroad.

Wisconsin board looks outside

MADISON, Wis. — The $17 billion State of Wisconsin Investment Board for the first time will look for external managers to augment its internal staff as it expands its international investments.

The internally managed fund also has added an international equity portfolio manager to its staff and is seeking an international fixed-income staff member as it gears up to invest up to 10% of its assets overseas.

David Herro joined the board last week as a portfolio manager in international equities, according to Marshall Burkes, executive director. Mr. Herro came to Wisconsin from The Principal, Des Moines, Iowa, where he was a manager of international equities.

L.A. County seeks yield adviser

LOS ANGELES — The $8 billion Los Angeles County Retirement Association has narrowed to five its search for equity managers whose style focuses on stock yields.

One or more of the managers selected will manage a total between $350 million and $450 million, said Victoria Treadwell, a portfolio analyst for the fund.

The finalists are: Delaware Investment Advisers, Philadelphia; Hagler, Mastrovita & Hewitt Inc., Boston; Hotchkis and Wiley, Los Angeles; INVESCO Capital Management, Atlanta; and Merus Capital Management Inc., San Francisco.

Callan Associates, San Francisco, is assisting in the selection.

Fund targets media acquisitions

NEW YORK — Sillerman-Magee Communications Management Corp., a communications merchant bank, is launching its first fund for institutional investors.

The private placement fund will raise about $100 million and will invest in companies that are supported by advertising dollars in such industries as radio, television and publishing.

The merchant bank is 10% owned by Equitable Capital Management Corp., New York, which invests directly in many of the firm's deals.

Firestone taps Chicago Group

CHICAGO — The Firestone Tire & Rubber Co., with about $492 million in total tax-exempt assets, has hired The Chicago Group, a unit of Morgan Stanley Asset Management, to manage $25 million in an equity account, said Meredith Parente, Firestone's manager of domestic finance.

Ms. Parente said she couldn't comment on the company's allocations, and also declined to say from where the assets were coming. The Chicago Group specializes in value investing.

Texas Teachers to study future

AUSTIN, Texas — The Teacher Retirement System of Texas, with total assets of nearly $20 billion, has hired Wyatt Asset Services, Dallas, to perform an asset/liability study to help the system gauge the impact of changing demographics on the fund in coming years, according to Bruce Hineman, executive director.

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On the air . . . maybe

Fund's TV premiere panned

By Curtis Vosti

MONTGOMERY, Ala. — The $8 billion Retirement Systems of Alabama has plans to purchase a Montgomery television station, but Gov. Guy Hunt is talking cancelation before the show gets under way.

The systems, which include the state's teacher and employee pension funds, filed suit Jan. 27 in Montgomery County Circuit Court seeking a ruling it acted properly in December when it purchased WSFA, Montgomery's dominant television station, for $70 million.

The sale still needs approval from the Federal Communications Commission, but "as far as Mr. Hunt is concerned, it is stopped — null and void," said Terry Abbott, the governor's press secretary.

Mr. Abbott said the governor opposes the purchase for a couple of reasons. "We feel it would be a conflict of interest in that the retirement systems could exercise undue influence in the biggest television station in the capital city."

Mr. Abbott also said the governor thinks the purchase is void because the retirement system violated several of its regulations as well as state statutes in proceeding with the purchase.

Particularly, Mr. Abbott said, the retirement board went through with the sale without the written approval of Finance Director Robin Swift, who, by statute, is an investment committee member of both the teachers and employees funds, which are splitting the purchase.

Bill Walsh, deputy secretary-treasurer of the retirement systems, said Mr. Swift expressed no opposition to the purchase when first informed of it by David Bronner, the systems' chief executive officer.

Neither Mr. Swift nor Mr. Bronner could be reached for comment.

Mr. Walsh said Mr. Swift previously had given Mr. Bronner the power to approve — by signing Mr. Swift's name — routine investments.

"When the investment was made, we had the authority," Mr. Walsh said. "As far as we are concerned, (the purchase of the television station) was a routine investment. A week later, we bought $140 million in CSX (Corp.) and we used the same procedure. We used the same procedure we did for everything."

David Bronner approved the purchase of a television station by the Alabama pension fund.

Mr. Abbott said that according to state statutes and retirement

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Boston Co.'s new leader stresses firm's continuity

By Curtis Vosti

BOSTON — Despite a scandal that rocked three top officials from the company, the new president of The Boston Co. says continuity of leadership will allow the company to grow as it had under former President James von Germeten.

Boston Co.'s William J. Nutt says the firm is committed to growth.

Mr. von Germeten, Joseph Murphy, chief financial officer and executive vice president, and Michael J. Walsh, senior vice president and treasurer, are out of jobs in the wake of accounting errors that led to a pre-tax $30 million overstatement of the company's earnings for 1988's first three quarters. Messrs. Walsh and Murphy resigned at a Jan. 20 meeting of the boards of directors of The Boston Co. and its affiliate, Boston Safe Deposit & Trust Co.; at the same meeting, Mr. von Germeten was fired after pleading his case and refusing a severance offer, reported to be in the millions of dollars.

He was replaced by William J. Nutt, who will assume the titles of president of the Boston Co. and chairman and chief executive officer of Boston Safe Deposit.

In a brief interview that he cut short, Mr. Nutt said the companies' businesses are expected to continue the growth that characterized Mr. von Germeten's six-year employ

Mr. von Germeten could not be reached for comment.

"We know of no legal action that he's taken," Greg Ahern, senior vice president, said of rumors that Mr. von Germeten might be preparing a lawsuit.

"I don't think you change the approach to business management by changing one person," Mr. Nutt said. "No doubt that Jim contributed to that growth, but we have strong, capable leadership that can continue."

Mr. Nutt specifically mentioned George Phillips, Boston Co.'s chairman, and Thomas J. Lucey, group manager for institutional clients, as persons who had led the company for many years and continue in their positions.

Although Mr. Nutt said he "frankly" didn't know if the company could continue the spectacular growth rate that marked Mr. von Germeten's tenure, he said growth was an essential element to a business to provide opportunities to its people and revenue to its systems.

"We're committed to growth," he said. "I think we will achieve

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Council campaign targets 5

By Marcia Parker

WASHINGTON — The Council of Institutional Investors is targeting five companies for the 1989 annual meeting season as part of its continuing campaign to open a direct dialogue between corporate America and the institutional shareholders that own the bulk of their stock.

The target companies are American Greetings Corp., Cleveland; Emerson Electric Co., St. Louis; Scott Paper Co., Philadelphia; Sears, Roebuck & Co., Chicago; and SmithKline Beckman Corp., Philadelphia.

Sarah Teslik, executive director of the council, said council members collectively hold significant blocks of stock in those companies.

"We will begin corresponding with management and directors to achieve better communications between shareholders and management," Ms. Teslik said.

She said letters seeking individual meetings in mid-March with company executives went out last week to the executives of the companies. The purpose of the meetings would be to initiate discussion with management on ways to ensure boards of directors effectively represent shareholders' interests.

Companies could be encouraged to establish a permanent role for shareholders in the nominating process, such as through the creation of a nominating committee to include shareholders; to accept the submission of a list of nominees for directorship; and to submit certain issues, such as poison pills and golden parachutes, for shareholder votes. Ms. Teslik said the goal is not to obtain a seat on any board for a council member.

The council's members include institutional investors such as state, local and union pension funds that collectively hold more than $300 billion in assets. The organization has been stepping up its corporate governance activities, in keeping with the growing activism of institutional investors everywhere.

The group is preparing economic performance data for judging management and a data bank of qualified pro-shareholder directors.

ScoreCARD

NET DOLLAR GAIN

Top 10 managers over $1 billion

Firm	$ millions
Wells Fargo Investment Advisors	11,840
State Street Bank	8,160
Mellon Capital Mgmt.	3,600
Bankers Trust	3,100
Metropolitan Life	3,069
Sanford C. Bernstein	3,058
Aetna Life Insurance	2,930
Morgan Stanley Asset Mgmt.*	2,845
Capital Guardian Trust	2,819
Pacific Investment Mgmt.	2,782

*Nine months ended Sept. 30

Top 10 managers $250 mil. to $1 bil.

Firm	$ millions
T. Rowe Price Guaranteed Asset	817
Cabot, Cabot & Forbes Realty Advisors	720
First Quadrant	624
QuantiLogic Asset Mgmt.	490
Axe-Houghton	489
Fiduciary Capital Mgmt.	450
Security Capital Mgmt.	400
Boston International Advisors	371
Ariel Capital Mgmt.	362
Morgan Grenfell Capital Mgmt.	355

Top 10 managers under $250 million

Firm	$ millions
Mount Lucas Mgmt.	168
Investment Research	157
Acadian Asset Mgmt.	155
Fisher Investments	127
JMC Capital Mgmt.	124
Marsh & Cunningham	120
Rampart Investment Mgmt.	115
Capital Technology	102
LVM Capital Mgmt.	90
Derivative Markets Mgmt.	89

Index managers take lion's share

By Trudy Ring

Indexed and structured investment strategies were the key for domestic investment managers that attracted substantial new business in 1988.

Among firms with more than $1 billion in total assets under management, the three top gainers of domestic equity business are exclusively or primarily indexers — Bankers Trust Co. — Investment Management Group, New York; Wells Fargo Investment Advisors, San Francisco; and State Street Bank and Trust Co., Boston. Another indexer, Mellon Capital Management Corp., was fifth, following the quantitative Rosenberg Institutional Equity Management, Orinda, Calif. Two others in the Top 10, The Boston Co. Inc., Boston, and Northern Investment Management Co., Chicago, are big in indexed and structured strategies.

The rankings are derived from *Pensions & Investment Age*'s Scorecard survey of money managers, which tracks net asset growth for the year ended Dec. 1.

Much of Bankers Trust's growth has come about because of its ability to customize indexes–to client needs, said Carol Kolakowski, manager-marketing support. Only about one-third of its $26.5 billion total domestic indexed equity business is in "plain vanilla" Standard & Poor's 500 Stock Index funds, and even some of that is screened for social issues, such as companies doing business in South Africa or Northern Ireland, or manufacturing alcohol or tobacco products.

Interest in indexing continues to expand beyond the traditional S&P 500 fund, agreed Peter Braun, State Street Bank vice president and director of marketing for asset management. Last year, the bank introduced an index of the next 500 largest-capitalization stocks beyond the S&P 500, he said. Also, he said he has seen lots of enthusiasm for small-stock and market-sector index funds.

The top new-business draw among mid-size firms, those with total assets under management of $250 million to $1 billion, was harder to identify, with the leaders representing a mix of fundamental and quantitative approaches.

Leading the list of equity managers with $250 million to $1 billion under management was Morgan Grenfell Capital Management Inc., New York, with $355 million in net new equity business. The firm, which is the U.S. equity management arm of Morgan Grenfell Asset Management Ltd., uses a bottom-up approach to identify emerging growth companies and a top-down approach to select economic sectors.

The second-place finisher, Brandywine Asset Management, Wilmington, Del., uses a combination of quantitative and qualitative factors to pick stocks with low price-to-earnings ratios, said Frank Frey, managing director. The firm invests in stocks with at least $50 million capitalization in the lowest 25% of the market's p/e range.

Ariel Capital Management Inc., Chicago, which uses Graham & Dodd analysis to pick undervalued, neglected stocks, came in third with $221 million. A highly quantitative firm, Franklin Asset Management Systems, San Mateo, Calif., finished fourth with $210 million in net new equity business.

Among managers with less than $250 million in total assets, Investment Research Co., Chicago, led gainers with $155 million. The firm uses a passive framework. Following with $115 million each were Fisher Investments Inc., Woodside, Calif., using a combination of quantitative and qualitative strategies; and Rampart Investment Management Co. Inc., Boston, which emphasizes option-hedged equity portfolios.

Although structured strategies attracted much of the new fixed-income business during the year as well, the top large firm — Bankers Trust, again — gained most of its business in active strategies.

In contrast to its largely indexed equity

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GIC explosion creates boom for new business

By Fred Williams

The explosive growth in the use of guaranteed investment contracts by employee benefit plans has led to an equally dramatic increase in discretionary management of guaranteed investment vehicles during the past two years.

During 1988, the 10 leading managers in net new GIC business gained a total of $8.2 billion, according to *Pensions & Investment Age*'s Scorecard survey, which charts net gains by investment managers for the year ended Dec. 1.

Most GIC managers expect 1989 to show an even larger increase.

While competition among GIC managers is intense, most agree the driving force for the expansion in GIC assets under management is coming from a thriving defined contribution retirement plan industry, where employees are seeking a low volatility investment option with a steady stream of income.

Between 1984 and 1987, private defined benefit plan assets increased 38% while defined contribution assets grew 53%, according to the Employee Benefit Research Institute, Washington.

Morley Capital Management Inc., Lake Oswego, Ore., was the leader among GIC managers in net new business in 1988 with $2.17 billion. Morley was followed by PRIMCO Capital Management Inc., Louisville, Ky., with $1.8 billion and Bankers Trust Co. — Investment Management Group, New York, with $1.54 billion.

Since the 1988 *P&I Age* Scorecard is the first to measure only GIC managers and not insurance companies, there are no definite growth comparisons with previous years. The three non-insurer managers that were included in the 1987 Scorecard, however, displayed significant increases in new business. For example, Morley attracted $1.1 billion in 1987 for a two-year net gain of more than $3 billion. PRIMCO gained $1.4 billion in 1987 and $3.2 billion for the two-year period. Bankers Trust gained $960 million in 1987 and $2.5 billion for the two years.

Many firms on 1988's Top 10 list did not exist three years ago, and have grown along with the shift toward defined contribution pension plans.

"GIC management is a product that hasn't been around very long. There is naturally going to be growth because this is a new area," said Jerry Chafkin, vice president and manager-GIC investments at Bankers Trust.

"The first clients that sign on are willing to take the risk with a new concept and now others are starting to take a second look. There is a natural evolution here. We think 1989 will be even bigger than 1988 as far as GIC appointments. This is a defined contribution market. . . . That's where the growth and the future are."

According to most estimates, the total volume of GICs in employee benefit plans ranges from $150 billion to $200 billion, with about 10% of that actively managed by discretionary GIC managers. The balance is managed internally by plan executives either entirely or with placement assistance from consultants.

Larry Mylnechuck, senior vice president at Morley, said the firm's growth has been due largely to recognition by executives at large plans that managing a GIC portfolio has become more complex and time consuming, creating a need for full-time outside management.

"When you have $25 million or $30 million (managed internally), that's one thing; but when you have $500 million,

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ScoreCARD

MOST NEW EQUITY BUSINESS (NET)

Top 10 managers over $1 billion

Firm	$ millions
Bankers Trust	4,778
Wells Fargo Investment Advisors	4,290
State Street Bank	2,900
Rosenberg Institutional Equity Mgmt.	1,496
Mellon Capital Mgmt.	920
Boston Co.	585
Columbus Circle Investors	545
Avatar Associates	425
Northern Investment Mgmt.	349
GAMCO Investors	302

Top 10 managers $250 mil. to $1 bil.

Firm	$ millions
Morgan Grenfell Capital Mgmt.	355
Brandywine Asset Mgmt.	268
Ariel Capital Mgmt.	221
Franklin Asset Mgmt.	210
Axe-Houghton	192
WEDGE Capital Mgmt.	160
Schaenen Wood & Associates	135
Chicago Group-Morgan Stanley Asset	92
BMI Capital	78
Parametric Portfolio Associates	55

Top 10 managers under $250 million

Firm	$ millions
Investment Research	155
Fisher Investments	115
Rampart Investment Mgmt.	115
JMC Capital Mgmt.	106
Capital Technology	88
LVM Capital Mgmt.	88
Wall Street Associates	53
American Income Plus	50
Derivative Markets Mgmt.	50
MTH Asset Mgmt.	50

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Ruling may hurt minority firms

By Margaret Price

The U.S. Supreme Court ruling against a minority set-aside program in Richmond, Va., might make it more difficult for new minority-owned money management and brokerage firms to establish their businesses.

Minority or female-owned firms frequently have depended on at least some public fund contributions to gain size and stature. Now, some of these more aggressive managers feel the Supreme Court's ruling might have stunted not only their potential growth, but also the growth of new firms.

"A lot of (minorities) have been thinking about starting investment firms. But I think that some were counting on legislation to expand the pool of funds available to minority money managers," said John W. Rogers Jr., president of minority-owned Ariel Capital Management Inc., Chicago.

In the case of Richmond vs. Croson, the court effectively declared illegal any rigid quotas in the public sector's allocation of business contracts unless prior discrimination can be shown. The particular case involved Richmond's law that 30% of public works assets go to minority-owned construction companies.

In the views of a number of pension experts, the court's decree will have greater effect on minority-owned businesses than on pension fund sponsors.

There is no exact figure on the number of pension funds operating under formal or informal minority-hiring rules. In fact, Justin Beckett, marketing director of NCM Capital Management Group Inc., a minority-owned management firm in Durham, N.C., said he knows of "no statutory requirement in the country" that mandates specific set-asides of pension fund assets for minority money managers or brokers.

Traditionally, pension funds have been exempt from formal set-aside rules, at most following "guidelines." Few, if any, have used minority-owned manage-

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CORRECTIONS & CLARIFICATIONS

- An incorrect salary figure was given in the Jan. 23 story on **Dale Hanson**, chief executive officer of the **California Public Employees' Retirement System.** Mr. Hanson's annual salary is $85,000.
- The defined contribution assets of **Shell Oil Co.** declined 2.9% during the year ended Sept. 30, not 8.5% as reported in the Jan. 23 issue. The error occurred because the 1987 defined contribution total included employee stock ownership plan assets that for 1988 were listed separately under "other."
- **ITT Corp.** has $2.602 billion in total employee benefit assets. The number, printed correctly in the profile, was listed incorrectly in the chart ranking the Top 200 pension funds Jan. 23. The correct number does not change ITT's rank.
- Several of the companies ranked in the Top 1,000 funds were listed in the wrong states. The companies, their rank, and proper locations follow: **Cummins Engine Co. Inc.**, No. 287, Columbus, Ind.; **Anchor Hocking Corp.**, No. 603, Lancaster, Ohio; **Gerber Products Co.**, No. 652, Fremont, Mich.; **Arvin Industries Inc.**, No. 818, Columbus, Ind.; and **Rubbermaid Inc.**, No. 874, Wooster, Ohio.
- **Investment Management Controls'** comparison figures in the Jan. 23 issue were for a 25-year period ended 1987, not a 20-year period. Also, IMC uses the Urban Consumer Price Index as the inflation rate and not the Treasury bill rate.
- In the Jan. 23 Datebook, the correct telephone number of **Wharton Executive Education Programs** for the April 9-10 and May 7-12 programs is (215) 898-1776.

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PROPERTY

WRAP-UP

The Koppers Building in Pittsburgh was acquired by the United Trust Fund partnership.

Partnership buys 2 sites

MIAMI — The United Trust Fund Limited Partnership has acquired an office building and a retail site in separate transactions with a combined value of more than $60 million.

The limited partnership was formed in May 1988 with United Trust Fund, a Miami-based real estate firm specializing in corporate sale-leaseback transactions, serving as general partner and Metropolitan Life Insurance Co., New York, as limited partner.

Individual purchase prices for the properties were not released.

The office property, the Koppers Building, is a 32-story, 446,000-square-foot building in Pittsburgh. The site has served as the headquarters of Koppers Co. Inc. since 1929. The property was purchased from Beazer PLC, a British company that recently acquired Koppers.

Koppers is leasing the building, a designated landmark, for a period of 15 years.

During the past several months, United Trust Fund has focused on acquiring corporate real estate in the Northeast region of the United States, having purchased five such properties in transactions valued at more than $150 million.

The United Trust Fund partnership also acquired Pathmark Supermarket and Pharmacy, a 54,300-square-foot store in Bergenfield, N.J., from Supermarkets General Corp., the eighth largest private company in the country, with 1987 sales in excess of $5 billion. Supermarkets General is leasing the property for 35 years.

FDIC slates auction

NEW YORK — Just as owners of investment-quality jewelry and art have done for years, the Federal Deposit Insurance Corp. has contracted with Christie's auctioneers to try to sell more than 25 properties valued at more than $60 million.

The auction, to held March 9 at Christie's in New York, is a joint venture with Cushman & Wakefield. Office buildings, shopping centers, apartment complexes, hotels and land — many in the South and Southwest — are included in the auction. The properties are expected to fetch between $1 million and $25 million each.

Earl Reiss, executive vice president of Cushman & Wakefield, said his firm picked FDIC properties to be auctioned based on their potential for capital appreciation. The auction was proposed by Cushman & Wakefield officials to help the FDIC reduce its $400 million worth of real estate holdings acquired through bank failures.

Equitable picks chief

ATLANTA — Douglas A. Tibbitts has been named president of Equitable Real Estate Investment Management Inc., filling a post left vacant since George A. Puskar became chairman of the firm last summer.

Mr. Tibbitts had been senior vice president in charge of Equitable's Southwest region, based in Dallas, since 1982. He will be succeeded by Chuck Klepfer, previously responsible for acquisitions and new investment operation for the Dallas region.

As president, Mr. Tibbitts will be responsible for running day-to-day operations for the company, which has 12 regional offices. He is a member of Equitable Real Estate's executive management committee.

Crow partners depart

DALLAS — David Clossey and Raymond Golden have left Trammell Crow Co. and joined New York-based James D. Wolfensohn Inc., an investment banking boutique chaired by Paul Volcker, the former chairman of the Federal Reserve Board.

Messrs. Clossey and Golden were national partners in Crow; Mr. Clossey was also the firm's chief financial officer. Neither will have titles at Wolfensohn, a spokesman said.

Crow officials say the two men had completed their assignments and left Crow for greener pastures. But others privately say Messrs. Clossey and Golden — and especially Mr. Clossey — were forced out by partners who blame them for much of the turmoil and and many of the defections among key partners associated with the firm's two-year restructuring process. Both men were considered instrumental in that process, and Mr. Clossey was perceived as the hatchetman.

Messrs. Clossey and Golden did not return phone calls.

Trammell Crow is a partnership. Under the old system, partners could bring in other partners, who would then have the prestige of the Crow name — especially when seeking financing — but could operate with virtual autonomy. Under the new structure, several new levels of reporting intervened between the local partners and top management, and the ability of partners to take on partners on their own authority was restricted.

Occupancy rebounds

WASHINGTON — Office vacancies in North America averaged 18.3% at the end of 1988, down from 19.3% a year earlier, a survey by the Building Owners and Managers Association International shows.

The average vacancy rate in suburbs dropped to 22.7% from

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Favored realty firms have special touch

By Andrew Reinbach

Institutional investors increasingly are moving toward specialty real estate investments and niche real estate money managers, *Pensions & Investment Age*'s annual Scorecard survey shows.

Scorecard tracks the net gains — excluding capital appreciation — in manager assets for the year ended Dec. 1.

The most dramatic gain was reported by Cabot, Cabot & Forbes Realty Investors. The firm, which began the reporting period with no assets under management, raised $720 million for a specialized fund made up of individual accounts. The fund will invest in properties that will benefit from demographic and market changes, and can include redevelopment of the properties.

"We're selling our approach to the market, but even if we buy a warehouse and don't plan to redevelop it, we buy where the area is going to improve and thus create added value," said John Malloy, senior vice president of Boston-based Cabot, Cabot & Forbes.

ScoreCARD

Most new real estate equity business

	$ millions
Equitable Real Estate Investment	1,199
Copley Real Estate Advisors*	1,163
Heitman Advisory	878
TCW Realty Advisors	779
Cabot, Cabot & Forbes Realty Advisors	720
Lehndorff & Babson Real Estate Counsel	704
Richard Ellis	669
O'Connor Group	378
Boston Co.	304
PSI Institutional Realty	229

*As of Sept. 30

Pension funds that committed assets to the fund include BellSouth Corp., Bechtel Power Corp., IBM Corp., Shell Oil Co., Eastman Kodak Co. and Massachusetts Pensions Reserve Investment Management Board.

Another specialized approach resulted in a $1.163 billion net gain for Copley Real Estate Advisors, Boston.

Most of its 1988 growth came from the closing of its $535.5 million Copley Institutional Investors Fund II, a closed-end commingled fund that invests in warehouse development in the corridor between Boston and Washington and in California. Among the investors committing assets to Copley are State of Connecticut Trust Funds, Phelps Dodge Corp.'s pension fund and the Rockefeller Foundation.

Another indication of the trend toward specialty managers is the $229 million invested in PSI Institutional Realty Inc., a division of Glendale, Calif.-based Public Storage Inc. PSI builds miniwarehouses and offers both targeted and general commingled accounts.

William J. Chadwick, PSI's president, said about $110 million of the net new assets came from new accounts, while $119 million was from existing clients. New PSI investors in 1988 included Oregon Public Employes Retirement System, Pennsylvania State Employes' Retirement System and the Los Angeles County Retirement Association.

Asked why PSI is successful at attracting investors, Mr. Chadwick said: "Historically, we have been able to deliver on our promises. I don't believe in pro formas; if I really knew where inflation was going to be in the next 10 years, I'd be doing something else. But when we've offered projections, we've delivered on them."

Mr. Chadwick's comments underscored consultant Stephen E. Roulac's contention that the gap between manager promises and reality is adversely affecting the pension fund market for real estate investments.

"There's been an overall concern about real estate among plan sponsors because of the portfolio write-downs that have occurred as well as the general future of real estate, as well as some disappointment in

Continued on page 20

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January 6, 1989

WRAP-UP

Continued from page 19
24.8% during the one-year period, while the average downtown rate remained at 16.8%, according to the BOMA report. The Northeast had the most competitive margins; the central part of the country, the softest.

The BOMA survey was done in 30 metropolitan areas representing more than 1 billion square feet of office space.

Chicago sets record

CHICAGO — The Chicago office market absorbed a record-setting amount of space during 1988, although the year finished on a downward trend, according to a report from Julien J. Studley Inc.

Office space absorption in the suburban market, however, was down significantly from 1987's levels.

The report shows 9.3 million square feet of office space was leased in the downtown Chicago market during the year, up 5% from 1987. While there was 4.1 million square feet leased in new buildings, absorption in older buildings was up 10% from the previous year.

By submarket, leasing activity was highest in the Loop West End, where 32% of the available space was leased, followed by Michigan Ave., 25%; Central Loop, 16%; and Near North, 13%.

The November/December period, however, with its absorption of 1.2 million square feet of office space, was the second lowest period of the year and down 13% from the same period of 1987.

Absorption activity in the suburbs during 1988 fell 33% from the previous year's level, as only 3.4 million square feet of total space was leased.

The year finished on an high note in the suburbs, as the November/December period, with its 916,835-square-feet of leased space, showed a 12.8% from the same period of 1987.

New division formed

FOSTER CITY, Calif. — Metric Partners has hired K.C. Swartzel as senior vice president of its newly formed real estate investment banking group, which will provide consulting, disposition and capital markets services to institutions, corporations and developers.

Mr. Swartzel previously was vice president of real estate dispositions for American Equity Managers Corp. The investment banking group will be part of Metric Partners' subsidiary, MP Realty Services. Metric Partners is an affiliate of Metropolitan Life Insurance Co.

Global T.E.A.M. set

SCOTTSDALE, Ariz. — The International Real Estate Institute has established an international consulting service to provide real estate expertise on existing or proposed projects.

Technical Evaluation and Advisory Management will analyze the real estate project and give recommendations on how to make it profitable, explained Robert G. Johnson, executive director of the 10,000-member Scottsdale, Ariz.-based organization.

Special

Continued from page 19
the results produced by the managers compared with what they promised," said Mr. Roulac, managing partner of Roulac Real Estate Consulting, San Francisco, a division of Deloitte, Haskins & Sells.

Real estate managers are disappointing Mr. Roulac. "We'd like to see a much stronger focus on a strategic approach, and moving away from building picking," he said.

Asked about what will happen if managers continue to fail to invest all the dollars committed to them in particular years Mr. Roulac said, "Eventually, if (the plans) are putting out money and it's not being invested, they'll pull out of the allocation."

This could occur this year. "A lot depends on what happens in the stock market," he said.

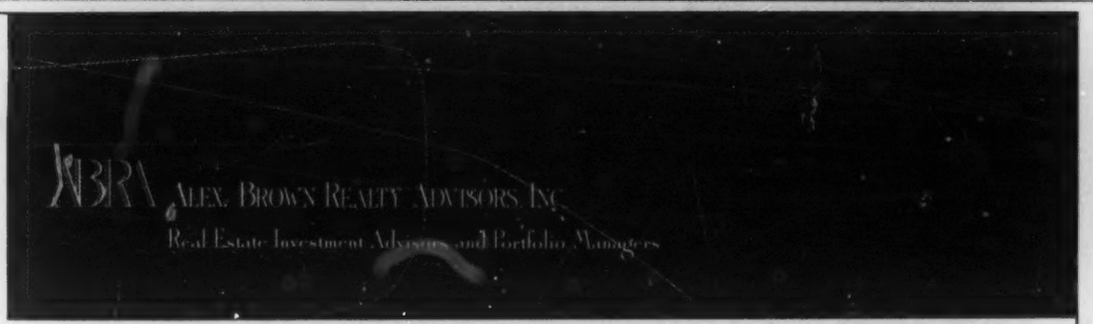
This will be a difficult year for real estate investment managers because it's tough to find acceptable properties, said Harry D. Pierandri, senior executive vice president of Equitable Real Estate Investment Management Inc., Atlanta. Equitable reported the largest net gain in real estate assets — about $1.2 billion during the year ended Dec. 1.

"I don't even know if there's a definition" of institutional-quality real estate these days, he said.

"It's going to be a tough market, and the people who do well will be those who block and tackle well," said Mr. Pierandri, a former football player. "A lot of things can bail you out of bad real estate (such as inflation) but the market won't forgive that like it used to. If you put something out (like a promise) and you can't come up with it, it comes around and bites you."

In aggregate, net gains among managers participating in this year's Scorecard decreased about one-third over net gains among managers participating in last year's Scorecard.

Managers received additional commitments of $7.27 billion in the year ended Dec. 1, compared with $10.85 billion committed to real estate managers in last year's survey. ■



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Developer: Henry Faison Associates

Tower Place
Cincinnati, OH
Major downtown retail/parking complex
Developer: Henry Faison Associates

Pioneer Place
Portland, OR
Mixed use, retail/office complex
Developer: The Rouse Company

Wyndham Hotel
Milwaukee, WI
10 story, 220 room hotel
Developer: Trammell Crow

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San Bernardino, CA
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INTERNATIONAL

Stock indexing back on top

By Margaret Price

International stock index funds, whose popularity had been eclipsed by foreign bond investments in 1987, recaptured the limelight during the 12 months ended Dec. 1, according to *Pensions & Investment Age*'s Scorecard survey of investment managers' new business.

Three of the nation's largest managers of indexed funds — Wells Fargo Investment Advisors, State Street Bank and Trust Co. and Bankers Trust Co. were the top three in net gain in new international/global business. While index funds accounted for the popularity of Wells Fargo and State Street, clients of Bankers Trust were attracted to both active and passive strategies.

Disillusionment with active managers' performances, coupled with fears about market conditions, fueled indexing's popularity.

After five years of underperforming the Morgan Stanley Capital International Europe Australia Far East Index, active money managers as a group already were on the defensive when they were hit with the added blow of the 1987 stock market crash. That development encouraged sponsors "to take fewer chances with active managers," said Jeff Skelton, vice chairman at Wells Fargo Investment Advisors, San Francisco.

But few sponsors want completely active or passive foreign portfolio management, said Michael Phillips, consulting director of Frank Russell Co., Tacoma, Wash.

When pension sponsors decide to invest abroad "usually they'll put about one-third of their money into passively managed funds." But even within that category, "there are a number of ways money can be managed passively," he said, pointing in particular to customized country weightings.

ScoreCARD

Most new international/global business

	Total	Equity	Fixed
Wells Fargo	1,035	948	87
State Street Bank	920	915	5
Bankers Trust	416	384	32
Warburg Investment	323	23	300
J.P. Morgan	308	-29	337
Boston Int'l Advisors	292	292	0
Nomura	284	284	0
Morgan Stanley	225	107	118
Prudential	224	-150	374
Nikko Capital (U.S.A.)	217	217	0

Wells Fargo is responding to the wishes. Although Mr. Skelton calls the firm's management style entirely "passive or passively related," for the first time last year, the firm employed an "active tilt" with $150 million of its net international asset gain invested in Wells Fargo's new Japan Tactical Asset Allocation and its Japan Tilted Index funds.

In the 12-month period, Wells Fargo attracted $1.035 billion in net new international and global business from five new clients, none of which was identified for publication.

(Under Scorecard requirements, managers must identify new clients in order to be included in the survey, but may request the names not be published.)

Last year, about 70% of State Street Bank's $920 million in new international business went into indexed accounts. The executives at the bank, whose new international clients include such organizations as the Seattle City Employees' Retirement System Sun Co. and Baxter International Inc. expect to see a "significant increase in assets committed to" tilt strategies, said Peter Braun, the firm's vice president and director of marketing and sales. He believes the hybrid approach allows money managers to enhance returns while minimizing the possibilities for investing error.

In 1988, State Street Bank's stock selection strategy — which stresses individual securities on a fundamental basis relative to other stocks in the same country and industry — returned 34.8% compared with the EAFE's 28.3% (with net dividends reinvested), said Mr. Braun. Moreover, he said the firm's country selection strategy — a quantitative system of determining relative attractiveness among individual country markets — returned an annualized 43% for the past three years compared with EAFE's 39.4%.

During his interview, Mr. Braun said the firm's total on the survey questionnaire had omitted $150 million in new assets from IBM Corp., which would bring its total net gain in international assets to $1.07 billion for the 12 months.

Third-place Bankers Trust provided the best example of mix-and-match foreign investing. Besides its top-down active investment style, the firm offers a proprietary passive management process that employs fewer stocks than does the EAFE index but has a bias toward higher capitalization stocks than the EAFE. "We do a lot of customization," said Sally Conover, Bankers' assistant treasurer and marketing manager. She pointed out, for instance, the firm

Continued on page 26

Firms boost Japan

Weightings still far below the index

By Curtis Vosti

International managers moved more heavily into Japanese equities during the fourth quarter, slightly lessening investments in other Pacific Basin countries, the United Kingdom, other markets and cash, according to The World Markets Co., Edinburgh, Scotland.

With 101 managers out of a universe of 119 responding, the weighted average holdings in Japan increased to 36% at year end from 31% at the end of the third quarter and 28% at the end of 1987. The average holdings in other Pacific Basin countries dropped to 10% in the fourth quarter from 11% at the end of the third; in the United Kingdom to 13% from 14%, and in other markets to 2% from 4%.

Average weightings in continental Europe rose to 30% in the fourth quarter from 29% at the end of the third quarter.

Cash holdings dropped to 9% from 11% at the end of the third quarter and 17% at the end of 1987.

Despite the gain in Japanese holdings, the managers' average weighting still is far below that of the Morgan Stanley Capital International Europe Australia Far East Index.

The EAFE's weighting for Japan increased to 64.7% in the fourth quarter — the largest in the index — from 62.9 in the third quarter and 61.4% at the end of 1987. The index weighting for other Pacific Basin countries dropped to 4% from 4.6%; for the United Kingdom, to 11.6% from 12.7%; and for the Continent, to 19.6% from 19.8%.

The underweighting in Japan for most portfolios has been cited as the major reason for active international managers' underperformance of the EAFE. As reported by The Frank Russell Co., Tacoma, Wash., the Japanese market returned 35.5% for the year in U.S. dollar terms. In the same terms, the Singapore market returned 33.3%; the Hong Kong market returned 28%; Australia, 38.1%; and New Zealand, -12.3%.

Not since 1983 has the median international equity manager in Frank Russell's 13'-portfolio universe outperformed the EAFE for a calender year.

In 1988, according to the World Markets survey, the median performance for international equity managers was 11.1% in the fourth quarter and 14.7% for the year. The EAFE returned 15.8% for the quarter and 28.9% for the year, according to Pensions & Investments' Performance Evaluation Report.

But an EAFE-matched weighting doesn't guarantee success in beating the index.

Pacific Enterprises Inc., Los Angeles, has $46 million of its $813 million in defined benefits invested internationally.

"We run Pacific Basin money, very heavily weighted in Japan," said Thomas Rollinger, assistant treasurer. The fund's investments — with Daiwa International Capital Management Corp. and Nikko & Associates Inc., both New York-based subsidiaries of Japanese firms — are more than than 90% weighted in Japan, he said.

"Neither Daiwa or Nikko for us is beating EAFE in 1988," Mr. Rollinger said. "It (the underperformance of EAFE) has to be sector weighting or stock selection. We don't sit on any cash."

In perspective, however, he said the returns are excellent.

"The performance on an absolute basis has been tremendous," Mr. Rollinger said. "We tripled our international investments in 2½ years" because of performance. He did not release performance figures.

He said a fairer comparison is not just with the EAFE index, but also comparisons with peer investors and expected returns.

"There's no question our managers are under EAFE," he said. "But by any measure, those funds are substantially ahead of what these funds would have returned in domestic equities. We'd have a hard time kicking them in the pants just because they weren't beating EAFE."

The EAFE composite portfolio managed by Nomura Capital Management, New York, has an

Continued on page 26

Geographic asset allocation of non-U.S. portfolios

Country/region	Weighted average 4th qtr.	Weighted average 3rd qtr.	EAFE 4th qtr.	EAFE 3rd qtr.
Japan	36%	31%	64.7%	62.9%
Other Pacific Basin	10	11	4	4.6
United Kingdom	13	14	11.6	12.7
Continental Europe	30	29	19.6	19.8
U.S. cash	9	11	NA	NA

Source: World Markets Co. and Morgan Stanley & Co.

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Japan weighting

Continued from page 25

average 54.8% weighting in Japan, according to Brian Fitzgibbon, senior vice president. The portfolio returned 10.9% for the fourth quarter and 15.8% for the year.

"We're a value manager, so we're looking for stocks with certain characteristics," he said. "There are two separate issues: weighting in Japan and where you are investing in Japan," he said.

George Jamgochian, of UBS Phillips & Drew International Investment Inc., New York, said its international investments returned 11.5% for the fourth quarter and 21.9% for the year.

"The principal reason for underperformance has been due to our underweighting in Japan (35%) and the stock selection in Japan," he said. "In 1988, the Japanese market was primarily driven by many of the large capitalization, high multiple stocks selling at peak cyclical earnings, with what we felt were dubious asset value stories."

Mr. Jamgochian said the firm holds about 22% of its portfolio in the United Kingdom. He is positive on European investments, in light of the intent to create a unified market there by 1992.

"We think those markets and economies should do quite well," he said. "The effects of 1992 will help them work with greater harmonization, there should be some sort of synergistic effect."

But underperformance is not only due to underweighting in Japan, according to Heydon Traub, assistant vice president for State Street Bank and Trust Co., Boston.

"A great part of the underperformance is because of underperformance within countries," he said, also citing overseas transaction costs and the difficulties of doing thorough analysis of the 18 different countries in the EAFE.

State Street has two tilted international funds: a less aggressive approach and a more aggressive approach, he said. In the less aggressive approach, they are they about 1% underweighted in Japan; in the more aggressive, they are 14% to 15% underweighted.

In the less aggressive approach, State Street is overweighted in Norway (compared with EAFE) by four percentage points, and Norway was one of the best performing countries for the year, with a 26.5% fourth quarter performance, in U.S. dollar terms, and a 39.8% return in 1988, according to Morgan Stanley & Co. Inc., New York.

The less aggressive fund was up 16.8% in the fourth quarter and 30.2% for the year, Mr. Traub said.

Kemper-Murray Johnstone International Inc., with offices in Chicago and Glasgow, Scotland, increased its Japanese exposure in the fourth quarter, to 34.2%, from 28.2% at the end of the third quarter. Kemper-Murray also raised its exposure to other Pacific Basin countries at the expense of European investments.

In Hong Kong, Kemper-Murray's weighting jumped to 5.5% by mid-January, compared with 3.5% at the end of the third quarter. In Singapore, Kemper-Murray increased its stake to 4.5% from 3%, and in Australia, to 3.3% from 2.2%.

Kemper-Murray reported decreases in its West German weightings, to 8.7% from 12.4%, and its Swiss holdings, to 5.6% from 7.8%. Other decreases included the United Kingdom, France and the Netherlands.

The average performance fo Kemper-Murray Johnstone's sep arate international equity ac counts was 9.5% for the fourt quarter and 22.7% for the year.

Although it has decreased it weighting in West Germany Kemper-Murray remains far abov the EAFE's 4.3% weighting, believ ing the German market is cheap an steady growth is expected.

Similarly, although the firm in creased its Japanese weightings, remains underweighted compare with the EAFE, because it think the market is overvalued.

On top

Continued from page 25

offers four separate counti funds.

For Bankers Trust, 1988 mark the second year it had a U.S. clie office focused on international i vesting for U.S. tax-exempt clien That contributed to substanti growth in international mon under management last year, sa Ms. Conover. Among its new clien were the National Telephone Coo erative Association, the Memph Light, Gas and Water Division Pen sion System and the Tacoma (Was Employees Retirement System.

During 1988, Banker's activ international commingled equi fund posted a 16.1% return, whi its passively managed commi gled international equities poste a 29.06% return and the return on a representative global fixe income account rose 6.1%. Com paratively, the Salomon Brothe World Government Bond Inde returned 9.96% for the period.

Although eclipsed by indexin overall, foreign bond investin clearly was a boon to some activ managers, such as Warburg Inves ment Management Internation Ltd. and J.P. Morgan Investmen Management Inc., which place third and fourth, respectively.

They benefited in part from tw trends in foreign bond investin the continuing dearth of closel followed foreign bond indexe and the opinion of some investo that bond investing is less compl cated than stock investing.

For her part, Carolyn Syke director of Warburg Investmen Management International, ex pects to see continuing growth i foreign fixed-income investment partly because of the mountin interest in hedging against foreig currency risks.

"Traditionally, returns o bonds have been more currency sensitive than that on equities, she said. "Salomon Brothers ha been spearheading a hedged ap proach to international bond in vesting which produces consider able risk reduction benefits. Tha development should help encour age the growth of hedged interna tional bond investing."

Warburg's $300 million in ne global fixed-income assets (ac counting for most of its $323 mil lion net gain overall) came fro one client — the California Publi Employees' Retirement System.

Another previously unreporte $25 million came from a univer sity endowment, Ms. Sykes said.

The firm reported a 13.93% per formance gain for all global eq uity accounts last year.

J.P. Morgan reported it receive five new clients for international global investing last year, none o which could be named.

P&I Age's Scorecard represent responses from 258 firms. They re ported receiving a total of $4.66 billion in net new global/interna tional funds, including $3.62 billion in equities and $1.035 billio in fixed-income investments. Tha total was down from about $ billion, almost all in equities, for th first 11 months of 1987.

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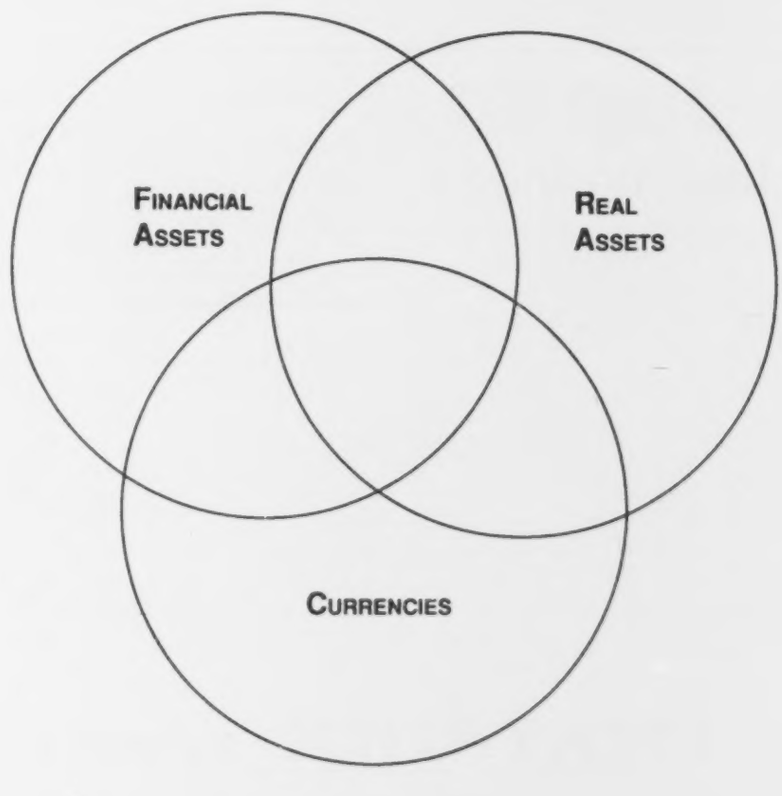

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GIC spreads at lowest point in year

By Fred Williams

Quality spreads for insurance company guaranteed investment contracts over Treasury securities narrowed to their lowest point in more than a year by the end of 1988, as yields on most contracts increased along with rising interest rates throughout the year.

According to Dietrich & Associates, a GIC brokerage firm in Blue Bell, Pa., a representative five-year, $1 million simple interest contract was yielding 9.4% Dec. 1, and a Treasury note of the same maturity was yielding 8.97%. On Dec. 9, 1987, the GIC was yielding 9.28% while the Treasury note was at 8.59%.

The yield curve became inverted during the final months of 1988 as shorter term fixed-income securities were yielding more than longer term instruments.

"The inverted yield curve means you are seeing insurance companies which are normally aggressive in the middle maturities quoting the same rate for three-, five- or seven-year contracts," said Mark Hanley, senior vice president of Brentwood Asset Advisors, a GIC consulting and brokerage firm in Beverly Hills, Calif. "Unless you really need a six- or five-year contract in your portfolio, most intelligent men will go three years each time."

The ongoing capacity problems faced by GIC issuers is expected to continue during 1989. "Things will get tighter and tighter, regardless of interest rates, the characteristics of the marketplace will be such that carriers will have narrower capacity restraints. Already they are facing more rigid underwriting requirements. It is becoming more important to negotiate strongly and search the market very carefully," Mr. Hanley said.

As the yield curve inverted in the second half of 1988, shorter term contracts became more attractive along with adjustable-rate contracts, said Tom Marthaler, GIC portfolio manager at CTT Investment Management Group, Chicago.

Mr. Marthaler said spreads on five-year bullet contracts over Treasuries narrowed from 75 to 100 basis points in January 1988 to 25 to 50 basis points by the end of the year.

He said the GIC environment in 1989 "will be a lot like the last half of 1988. The purchasing of contracts will be difficult if you're looking for spreads. We don't look for spreads to begin to widen again unless we get into a recession."

Gary Mink, president of the Mink Organization, a Rochester, N.Y., GIC consultant and brokerage firm, said 1989 "should be another big year. Interest rates will keep going up until about May and then we should see about a 1% downward movement in short-term rates. A lot of plans should consider forward commitments in their GIC portfolios. By buying a contract now, you can get nearly a 20-basis-point premium on a $5 million bullet contract. It helps the carrier with his cash flow anticipation and you are able to lock in a rate." Forward commitments allow a purchaser to commit to a contract and fund it at a later time.

John Knight, president of Lamberson Knight GIC Inc., a Short Hills, N.J., GIC broker, said insurance companies are taking measures to prevent a capacity shortage at the end of the year by spreading capacity requirements throughout the year.

"We've heard a lot of companies going into the year with their allocation of GICs more closely watched. If they have $600 million in capacity, they will try to spread it out over the entire year. A lot of carriers are getting more creative in the types of contracts they offer. Some are now offering a stepped payout — where principal and interest are paid out over the 3- to 5-year term of the contract," he said.

Insurance company rate quotations on representative five-year, single-deposit, simple interest, $1 million GICs as of Dec. 29 and Sept. 30, as provided by Lamberson Knight and GIC Inc. are:

- Allstate Life Insurance Cos., Northbrook, Ill.: Dec. 29, no quote; Sept. 30., 9%.
- American United Life Insurance Co., Indianapolis: 9.4%; 8.8%.
- Banker's Life Assurance Co., Des Moines, Iowa: 8.95%; 8.67%.
- Canada Life Assurance Co., Toronto: 9.43%; 9.01%.
- CNA Insurance Co., Chicago: 8.94%; 8.6%.
- Confederation Life Insurance Co., Atlanta: 9.47%; 9.25%.
- Connecticut Mutual Life Insurance Co., Hartford, Conn.: 9.5%; 8.98%.
- Continental Assurance Co., Chicago: 9.09%; 8.59%.
- Crown Life Insurance Co., Toronto: 9.25%; 8.79%.
- Great West Life Assurance Co., Denver: 9.08%; 8.73%.
- Hartford Life Insurance Co., Hartford: 9.39%; 9.09%.
- Home Life Insurance Co., New York: 9.59%; 8.78%.
- John Hancock Mutual Life Insurance Co., Boston: 9.59%; 8.81%.
- Life Insurance Co. of Georgia, Atlanta: 9.34%; 9.05%.
- Life Insurance Co. of Virginia, Richmond: 9.32%; 9.02%.
- Lincoln National Pension Insurance Co., Fort Wayne, Ind.: 9.36%; 8.99%.

Continued on page 30

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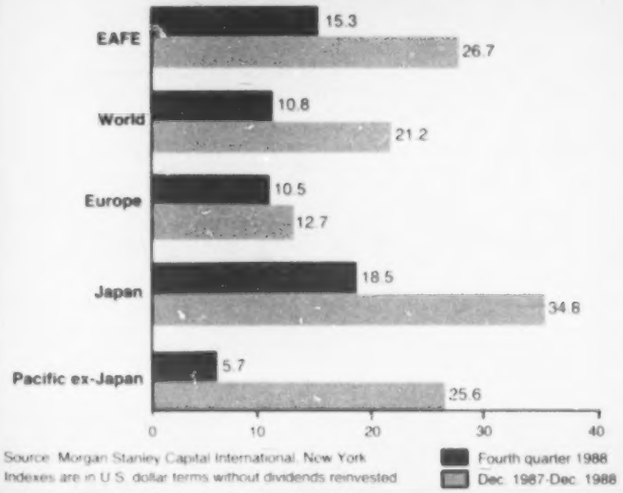
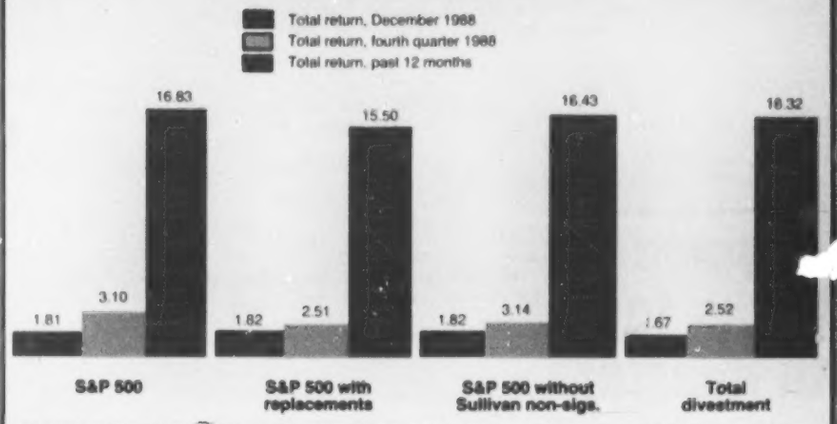
Morgan Stanley Capital International worldwide indexes



Source: Morgan Stanley Capital International, New York
Indexes are in U.S. dollar terms without dividends reinvested

South Africa Free Index



S&P 500 with replacements: replaces a South Africa-related company with next largest company in the industry. **S&P 500 without Sullivan non-signatories:** excludes 6 companies, no replacements. **Total divestment:** eliminates all companies with South Africa involvement, no replacements.

Source: Wilshire Associates, Santa Monica, Calif.

Multiple Markets Index

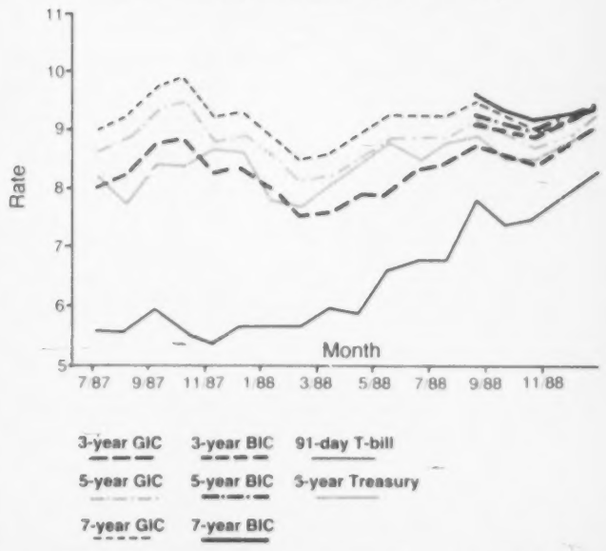
The Multiple Markets Index is a benchmark for total portfolio returns. It is composed of eight asset classes used by retirement plan executives; it is calibrated to reflect the same degree of risk of the typical pension portfolio; it uses passive fixed policy weights; and it represents the individual asset classes by the broadest and most complete market return data available.

Five-year annualized return 15.3%
One-year return 14.9%
Latest quarter 4%

Source: First Chicago Investment Advisors, Chicago

Summary of average GIC & BIC data vs. market yields

(Bullet, compound $1 million contract)



Source: William M. Mercer Meidinger Hansen Asset Planning Inc., Dallas

Fourth quarter 1988 returns

	Russell 3000®	Russell 1000®	Russell 1000® by market capitalization				Russell 2000®
			Large	Medium/large	Medium	Medium/small	
Technology	1.7%	1.9%	4.7%	-2.2%	-1 %	1.7%	-0.2%
Health care	1	1.6	1.8	3.2	-1.1	-1.3	-4.3
Consumer discretionary	0.7	0.7	2.3	0.3	2.5	-2.5	0.2
Consumer staples	12.1	12.5	11.5	18.1	3	-1.1	0.5
Integrated oils	3.5	3.5	3.7	3.3	1.4	1.2	7.1
Other energy	3.4	4	0	2.5	6.3	1.5	-1
Materials and processing	1.5	1.9	5.3	2.2	0	2.1	-1.2
Producer durables	-0.2	-0.2	-2.8	1.3	0.5	-2.7	-0.7
Auto and transportation	4.2	4.6	6.2	3.9	3.1	4.3	-1.4
Financial services	-3.3	-3.4	-0.3	-4.4	-3.6	-3.3	-2.7
Utilities	3.7	3.6	3.2	4.3	2.7	5.3	6.2
Total	2.3	2.5	4.2	2.8	0.7	0.1	-0.6

Source: Frank Russell Co., Tacoma, Wash.

Narrow spreads

Continued from page 28

- Massachusetts Mutual Life Insurance Co., Springfield: 9.14%; 8.77%.
- Minnesota Mutual Life Insurance Co., St. Paul: 9.68%; 9.04%.
- Mutual Benefit Life Insurance Co., Newark, N.J.: 9.3%; 8.95%.
- Mutual of New York, New York: 9.37%; 8.95%.
- New England Mutual Life Insurance Co., Boston: 9.21%; 8.91%.
- New York Life Insurance Co., New York: 9.2%; 8.85%.
- Ohio National Life Insurance Co., Cincinnati: 9.5%; 9.16%.
- Pacific Mutual Life Insurance Co., Newport Beach, Calif.: 8.9%; 8.13%.
- Pan American Life Insurance Co., New Orleans: 9.49%; 9.09%.
- Penn Mutual Life Insurance Co., Philadelphia: 9.57%; 9.13%.
- Phoenix Mutual Life Insurance Co., Hartford: 9.38%; 8.89%.
- Provident Mutual Life Insurance Co., Philadelphia: 9.41%; 8.94%.
- Provident National Assurance Co., Chattanooga, Tenn.: 8.54%; 8.48%.
- SAFECO Corp., Seattle: no quote; 9.05%.
- Southwestern Life Insurance Co., Dallas: 9.47%; 9.17%.
- State Mutual of America, Worchester, Mass.: 9.4%; 8.65%.
- Transamerica Life Insurance Co., Los Angeles: 9.19%; 8.97%.

William M. Mercer Meidinger Hansen Asset Planning, Chicago, surveys insurance companies for rate quotations and provided the following summary of various bullet GICs for December:

- **Three-year, $1 million, compound: high, 9.5%; low, 8.04%; average, 9.13%.**
- **Three-year, $1 million, simple: high, 9.59%; low, 8.04%; average, 9.11%.**
- **Five-year, $1 million, compound: high, 9.73%; low, 8.64%; average, 9.35%.**
- **Five-year, $1 million, simple: high, 9.74%; low, 8.64%; average, 9.33%.**
- **Seven-year, $1 million, compound: high, 9.78%; low, 8.62%; average, 9.42%.**
- **Seven-year, $1 million, simple: high, 9.76%; low, 8.78%; average, 9.4%.**
- **Three-year, $5 million, compound: high, 9.55%; low, 8.24%; average, 9.19%.**
- **Three-year, $5 million, simple: high, 9.54%; low, 8.24%; average, 9.18%.**
- **Five-year, $5 million, compound: high, 9.73%; low, 8.64%; average, 9.4%.**
- **Five-year, $5 million, simple: high, 9.71%; low, 8.64%; average, 9.38%.**
- **Seven-year, $5 million, compound: high, 9.78%; low, 8.98%; average, 9.47%.**
- **Seven-year, $5 million, simple: high, 9.79%; low, 8.88%; average, 9.46%.**

Dietrich & Associates provided the following rate spread data between a $1 million, five-year, simple-interest GIC and the average Treasury note of the same maturity for the fourth quarter of 1988:

- **Oct. 3: GIC, 9.15%; Treasury, 8.64%.**
- **Nov. 1: 9%; 8.32%.**
- **Dec. 1: 9.4%; 8.97%.**

Mercer Meidinger Hansen also surveys banks for rate quotations on guaranteed instruments. Quotations for three- and five-year bullet BICs for December are:

- **Three-year, $1 million, simple: high, 9.69%; low, 9.44%; average, 9.53%.**
- **Three-year, $1 million, compound: 9.69%; low, 9.22%; average, 9.44%.**
- **Three-year, $5 million, simple: high, 9.71%; low, 9.25%; average, 9.49%.**
- **Three-year, $5 million, compound: high, 9.71%; low, 9.22%; average, 9.44%.**
- **Five-year, $1 million, simple 9.74%; low, 9.45%; average 9.57%.**
- **Five-year, $1 million, compound: 9.74%; low, 9.22%; average, 9.48%.**
- **Five-year, $5 million, simple high, 9.79%; low, 9.23%; average 9.51%.**
- **Five-year, $5 million, compound: high, 9.79%; low, 9.22%; average, 9.47%.**

Consumer stocks top 4th quarter

By Trudy Ring

KANSAS CITY, Mo. — Stocks sensitive to consumer spending led the equity market in the fourth quarter, while Canadian bonds topped other fixed-income sectors, according to DeMarche Associates Inc.

Consumer spending stocks gained 4.1% in price in the quarter, while the Standard & Poor's 500 Stock Index was up 1.8% on a price-only basis. The index had total return of 3.1% in the quarter.

The consumer spending sector also led the stock market for the year, with a price gain of 20.8%. The S&P 500 was up 11.8% on a price-only basis and 16.6% on a total return basis. All stock returns, except where noted, are price only, without dividends. Total return includes dividends for stocks and coupon payments for bonds.

The sector consists of stocks in the food and beverage, tobacco, media, retail, lodging and restaurant industries.

Energy stocks had the second best performance for both the quarter and year, with 3.1% and 13.9% respectively. The sector includes domestic and international oil companies and oil service and equipment companies.

Basic industry stocks gained 2.1% for the quarter and 10.4% for the year. The sector consists of metals, automotive, transportation and building materials industries.

Technology stocks gained 1% in the quarter and 2.3% in the year. This sector has aerospace, drug, electronics and office equipment companies.

Stocks sensitive to interest rates had −0.9% in the quarter and a gain of 12% for the year. The sector consists mainly of utilities and financial services companies.

The 10 top-gaining industries in the quarter were tobacco, with 26.2%; aluminum and copper, 9.1%; food packagers and processors, 7.7%; textiles — products and apparel, 7%; automotive manufacturers, 5.7%; steel, 5.2%; air transportation, 4.5%; domestic oil, 4%; rail transportation, 3.9%; and consumer household products, 3.4%.

The 10 worst-performing industries were banks, −7.5%; insurance, −5%; consumer durables, −4.7%; building materials, −3.5%; consumer non-durables, −3%; automotive accessories, −2.1%; finance — miscellaneous, −1.8%; aerospace, −0.9%; electronics, −0.4%; and special machinery, −0.4%.

Continued on page 31

Median performance mixed

WAYNE, Pa. — The median eq-y fund in SEI Funds Evalua-n Services' universe returned % in the fourth quarter, lag-g the 3.1% return of the Stan-rd & Poor's 500 Stock Index. The median bond fund returned 2%, outperforming both major nd indexes. The Shearson Leh-n Hutton Government/Corpo-te Bond Index returned 1% and e Salomon Brothers Broad In-stment Grade Bond Index re-rned 0.8%. The median equity-only portion balanced funds also lagged the &P 500, returning 2.5%. The me-an bond-only portion of ba-nced funds returned 0.8%, atching the Salomon BIG but iling the Shearson Lehman tton index. The median total balanced fund returned 1.8%.

For the year, the median equity fund returned 16.8%, slightly outperforming the S&P 500's 16.6%.

The median bond fund returned 7.9%, while the Salomon BIG index had 8% and the Shearson Lehman Hutton index, 7.6%.

The median equity-only portion of balanced funds returned 17.5% and the median bond-only portion returned 7.3%. The median total balanced fund returned 11.3%.

For the five years ended Dec. 31, the median equity fund had a compound annualized return of 13.6%, while the S&P 500 had 15.3%.

The median bond fund had an annualized 11.9%, while the Salomon BIG index had 12.5% and the Shearson Lehman Hutton index, 12.2%.

The median equity-only portion of balanced funds had an annualized 14.4% for the five-year period and the median bond-only portion had 11.9%. The median total balanced fund had 13%.

The universe, compiled by SEI Corp., Wayne, has more than 8,500 portfolios with a total of $550 billion in assets. The portfolio returns are submitted by master trustees of pension funds.

According to SEI's analysis of stock market sectors, consumer staples stocks had the best return for the fourth quarter, with 9.3%. The top performers for the year were consumer discretionary stocks, with 28.3%.

The quarter's poorest-performing sector was finance, with −4.5%. Poorest for the year was technology, with 3.7%.

In the bond market, government and agency bonds did best in the quarter, with 1%, while mortgage-backed securities and industrial bonds tied for the worst return, 0.3%. For the year, utility bonds had the best return, 10.7%, and governments and agencies had the worst, 7.1%.

SEI bases its bond market analysis on the Salomon BIG index, which has 4,854 issues. In the fourth quarter, the index had average maturity of 9.6 years and average effective duration of 4.4 years. Treasury and agency issues made up 54.2% of the market value of the index, mortgage-backed securities, 26.2% and corporates, including utility, financial and industrial issues, 19.6%. The overall index quality rating was comparable to that of agency issues, which are not formally rated but are considered very high-grade securities, just below Treasuries.

As ranked by quality, BBB rated bonds had the best return for the quarter, with 0.9%, and year, with 10.7%. As ranked by maturity, long bonds did best for the quarter, with 1.7%, and year, with 10.1%. ■

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Stocks

Continued from page 30

The 10 top-performing individual stocks, many because of buy-outs, were **Pillsbury Co.**, up 73.9%; **RJR Nabisco Inc.**, 65.7%; **Tiger International Inc.**, 46.3%; **The Gap Inc.**, 36.3%; **Cummins Engine Co. Inc.**, 32.1%; **PHM Corp.**, 29%; **Fedders Corp.**, 27.9%; **Phelps Dodge Corp.**, 27.7%; **General Cinema Corp.**, 24.4%; and **American Brands Inc.**, 24.2%.

In addition to economic sectors, DeMarche analyzes the stock market by quality, growth and yield. As ranked by quality, stocks in companies rated above average had the quarter's best gain, 3.7%.

As characterized by growth, stocks with high, stable growth provided the best return, 2.9%. As ranked by yield, stocks in the highest fourth of the yield range also had the best price appreciation, 2.7%.

Canadian issues had the bond market's best return in the quarter, 1.9%. All bond performance figures are total return. DeMarche's Pension Fund Bond Index returned 1.3% in the quarter. Canadian bonds had the second best return, 10.2%, for the year. The index returned 9.3%.

All bond market sectors are part of the DeMarche index, which includes 6,196 issues. In the fourth quarter, the index had average maturity of 11 years and average duration of 4.5 years. The average quality was AA. Bonds rated AAA made up 39.3% of the market value of the index; AA, 19.4%; A, 23.7%; and BAA, 17.7%. Government issues made of 32.7% of the value; industrial bonds, 23.9%; financials, 20.5%; utilities, 16.1%; telephone issues, 4.3%; Canadians, 2%; and Yankee and foreign bonds, 0.4%.

Yankee and foreign bonds had the second best return for the quarter, 1.8%. For the year, these issues returned 8.7%.

Utility bonds returned 1.6% in the quarter; they had the year's best return, 10.4%.

Industrial bonds returned 1.5% in the quarter and 9.4% for the year. Telephone issues were up 1.2% for the quarter and 9.1% for the year.

U.S. government bonds returned 1.1% for the quarter and 9.1% for the year. Bonds issued by financial services companies were up 1.1% for the quarter and 8.6% for the year.

DeMarche also analyzes the bond market by quality, maturity and coupon rate. Bonds rated BAA outperformed higher quality sectors in the quarter, with a 1.9% return.

As ranked by maturity, those with maturities of 20 years or more had the best returns for the quarter, with 2.1%. As ranked by quality and maturity combined, BAA bonds with maturities of more than 20 years performed best in the quarter, with 3.2%.

Bonds in the highest one-fourth of the coupon range — with coupon rates of 11% or more — outperformed others in the period, with a 1.8% return. The average weighted coupon rate for the quarter was 9.6%. ■

GIC explosion

Continued from page 4

it is a different thing entirely," he said. "There has been increased concern about fiduciary liabilities with in-house GIC management and an increased administrative burden of managing the portfolio. You can probably take care of one or two contracts, but when you have 15 or 20 or 30, it requires more staffing and time to take care of the placements and contract rollovers."

Mr. Mylnechuck acknowledges the growth in 401(k) plans has led to an increase in discretionary GIC managers.

"Anytime you have an attractive market like this is now, you can bet others will jump in. But the cost of entry is rising. You must have the research, credit analysis, rate desk, contract and legal review and portfolio evaluation capabilities, among other things. We are likely to see our strongest competition now from established fixed-income managers rather than from banks," he said.

Ken Walker, president of T. Rowe Price Guaranteed Advisers Inc., Glen Allen, Va., which ranked fifth with $817 million in net new business, said while the growth in GIC management is driven primarily by the 401(k) market, most of the new money coming into GICs is not from new plans but from cash flow into existing plans and the compounding effect of that growth.

Benefit industry surveys indicate about 60% of participant-directed cash flow is going into GIC fund options.

"We are starting to see more interest in Section 457 programs — the public fund deferred compensation programs, and non-qualified programs such as endowments and foundations. Some are yield-oriented, such as building maintenance and improvement programs, and don't want to take a lot of risks with their money. These are primarily small colleges and universities. We are also seeing more activity in the bank market. More banks than ever before are setting up their own pooled arrangements," he added.

Capacity problems in the insurance industry have been an ongoing problem for GIC managers and plan executives, and according to at least one study, the demand for GICs in 1989 is expected to outstrip supply by as much as 10%, creating a "seller's market syndrome," according to Mr. Mylnechuck.

Mr. Walker said "in the last six months in the GIC market, not only has there been capacity problems and insurance companies are not willing to underwrite as much, but we've also seen them become more restrictive in what they write and some of them are even getting out of benefit-responsive contracts and only writing non-benefit responsive contracts, which they perceive as not as risky." (Benefit-responsive contracts are those that allow periodic withdrawals to pay benefits.)

"We are not having trouble placing money; it just takes a little longer to do it. It's truly become a seller's market," he said. "We see a continuing shift of risk from issuers to the buyer through contracts with call provisions, non-benefit responsiveness, set dollar windows. Issuers are becoming more cautious as well as smarter."

All eyes now are on the Department of Labor's proposed regulations under Section 404(c) of the Employee Retirement Income Security Act that could become final later this year, and could require the addition of "safe" investment options to certain existing plans.

If such a requirement is approved, it could further fuel the growth of GICs, which have been designated a safe investment.

Once the 404(c) regulations are adopted, "we will likely see a significant shift to the safe harbor — probably a GIC option," said Peter Bowles, president of Fiduciary Capital Management Inc., Woodbury, Conn.

The growing importance of GICs in corporate defined contribution plans has led to a change in perception among plan sponsors, said Mr. Bowles.

"If you subscribe to the theory there will be increasing demand for GICs and the dollars invested by plans is getting larger, corporate finance people are getting increasingly involved," he said. "GICs were regarded in the pa as an area for the benefit mar ager. Now the finance people a getting involved. . . . As the po tential for adding value grows, for making errors, I feel there h been an increased awareness fo designating someone (outsid managers) to draw upon wit knowledge and experience i managing the portfolio."

ScoreCARD

Most new GIC business*

	Net gain ($ millions)
Morley Capital Mgmt.	2,170
PRIMCO Capital Mgmt.	1,800
Bankers Trust	1,540
State Street Bank	1,040
T. Rowe Price Guaranteed	817
Fiduciary Capital Mgmt.	400
Ameritrust	196
IDS Trust	131
Pension Investment Resource	75
Vanguard	60

*Excludes insurers

ScoreCARD

MOST NEW FIXED-INCOME BUSINESS (NET)

Top 10 managers over $1 billion

Firm	$ millions
Bankers Trust	1,801
Northern Investment Mgmt.	1,767
Discount Corp. of New York	1,480
Pacific Investment Mgmt.	1,256
Morgan Stanley Asset Mgmt.*	1,157
J.P. Morgan Investment Mgmt.	833
Boston Co.	818
Sanford C. Bernstein	622
Wells Fargo Investment Advisors	601
Vanguard	535

*Nine months ended Sept. 30

Top 10 managers $250 mil. to $1 bil.

Firm	$ millions
Security Capital Mgmt.	346
Consistent Asset Mgmt.	300
Hoisington Investment Mgmt.	167
Lotsoff Capital Mgmt.	144
Smith Affiliated	138
Axe-Houghton	120
Harris Bretall Sullivan & Smith	99
Banc One Asset Mgmt.	65
Wolf, Webb, Burk & Campbell	25
Provident Mutual Life	19

Top 10 managers under $250 million

Firm	$ millions
Greenwich Asset Mgmt.	40
Wilkinson Boyd Asset Mgmt.	40
Govaars & Associates	30
PRIMA	27
Robert W. Baird	15
Karpus Investment Mgmt.	10
Bridgewater Asset Mgmt.	5
Capital Technology	5
Cedar Hill Associates	3
Winrich Capital Mgmt.	3

Top gainers

Continued from page 1

ucts have grown in the industry in 1988, we've grown along with them," she said.

Other big indexers among the top finishers in the $1 billion-plus category were State Street, Boston; fourth-ranked Mellon Capital Management Corp., San Francisco, and fifth-place Bankers Trust Co. — Investment Management Group, New York. Mellon Capital's growth also came from substantial new business for tactical asset allocation.

Indexing and tactical strategies "seem to be growing by leaps and bounds," said Skip Thompson, assistant trade analyst at Mellon Capital.

"There's a continuing drive toward passive and quantitative management," added Peter Braun, State Street Bank vice president and director of marketing for asset management.

Prudential Asset Management Co. Inc., Newark, N.J., which does not appear in the rankings, gained $10.79 billion during the year, primarily because of market gain and because of the acquisition of Capital Supervisors Inc., Chicago, which runs nearly $6 billion, mostly in balanced accounts.

New specialty investment firms dominated the top gainers among those with total assets of $250 million to $1 billion. Finishing first was T. Rowe Price Guaranteed Asset Advisers Inc., Glen Allen, Va. The firm is a GIC management subsidiary established in April by T. Rowe Price Associates Inc., Baltimore. Starting with nothing under management, it zoomed to $817 million by Dec. 1.

Second was real estate manager Cabot, Cabot & Forbes Realty Advisors Inc., Boston, which went to $720 million from nothing under management. (A story on top real estate managers appears on page 19.)

Coming in third, with $624 million, was First Quadrant Corp., Morristown, N.J., a tactical asset allocation manager. The firm, a unit of Crum & Forster Inc., had no outside clients until 1988. Much of the gain came from one account with The Common Fund, Fairfield, Conn.

QuantiLogic Asset Management Co. Inc., San Francisco, also a new firm and a tactical asset allocator, was fourth with $490 million, all from one client, plus market gains.

An unusual manager led the category for firms with less than $250 million under management. Mount Lucas Management Corp., Princeton, N.J., specializes in managed futures — investment in futures as a separate asset clas not as an enhancement of stock bond portfolios, and using com modity futures as well as finan cial ones. The firm's net gain $168 million includes $148 millio in increased contributions fro its one U.S. institutional tax-e empt client and $20 million market gains.

Mount Lucas expects other i stitutions to enter this asset cla but slowly, said Grant W Schaumburg Jr., president.

Investment Research Co., Ch cago, an equity manager, followe in the small-firm category with $157 million net gain. Acadia Asset Management Inc., Bosto an international equity specialis was third with $155 million.

ScoreCARD

MOST NEW BALANCED BUSINESS (NET)

Top 10 managers over $1 billion

Firm	$ millions
Wells Fargo Investment Advisors	3,943
Mellon Capital Mgmt.	830
Munder Capital Mgmt.	466
Ameritrust	353
Mellon Equity Associates	269
WR Lazard	264
Morgan Stanley Asset Mgmt.*	200
First Union National Bank	198
INVESCO Capital Mgmt.	169
Capital Guardian Trust	153

*Nine months ended Sept. 30

Top 10 managers $250 mil. to $1 bil.

Firm	$ millions
Palley-Needelman Asset Mgmt.	99
Axe-Houghton	88
Harris Bretall Sullivan & Smith	66
WEDGE Capital Mgmt.	53
Banc One Asset Mgmt.	42
Wolf, Webb, Burk & Campbell	40
Fiduciary Mgmt. Associates	34
Keystone Investment Mgmt.	27
South Carolina National Bank	26
Colorado Capital Advisors	26

Top 10 managers under $250 million

Firm	$ millions
Marathon Asset Mgmt.	29
Anchor Capital Advisors	27
NM Capital Mgmt.	20
Hallmark Capital Mgmt.	17
Robert W. Baird	16
JMC Capital Mgmt.	12
Kirkpatrick, Pettis Mgmt.	12
Marsh & Cunningham	12
Geneva Capital Mgmt.	11
Berry, Harteil & Evers	10

Texaco 'pill'

Continued from page 3

views on a proposed replacement pill sent to Texaco by the California Public Employees' Retirement System, Sacramento, which is a Texaco shareholder and one of two institutional investors that are non-voting members of the equity committee.

That plan would allow bids for Texaco but encourage the more orderly auction process, which many people believe is a fair way of accomplishing changes of control. In the view of California retirement system officials, their proposal addresses corporate governance concerns and still provides the board of directors with the ability to negotiate for the best long-term interests of the company.

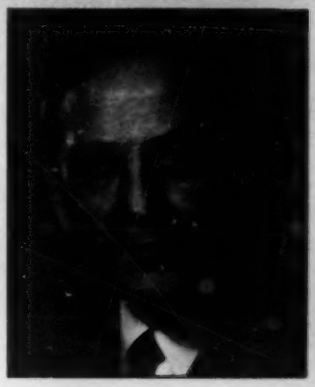
Dale Hanson, executive officer of the California fund, said the proposal was sent to several other companies interested in resolving the conflict between shareholders and management that often arises with a tender offer.

The California fund's proposal won't actually be evaluated by the chosen investment bank. The bank will only evaluate the rights plan Texaco management proposes. The California fund submitted the proposal as a suggestion to be considered as Texaco officials try to design a replacement pill. Company executives could incorporate the California proposal into the plan they eventually design.

Texaco has become a kind of proving ground for institutional investor activism on corporate governance issues. The giant oil company has been in and out of the spotlight since it and Houston-based Pennzoil Co. began battling over Getty Oil Co. in 1984.

In addition to the agreement with Mr. Icahn, Texaco took another important step that company watchers say could further alter the delicate alliance between institutional shareholders and management.

After months of haggling, Texaco management agreed to appoint to the board of directors New York University President John Brademas, who was selected from a list of 14 nominees supported by institutional investors. Charles Price, the U.S. ambassador to the United Kingdom, also was nominated to the board.



John Brademas is one of two candidates nominated to Texaco's board of directors.

Mr. Brademas, a widely respected former congressman who serves on a number of other corporate boards, was nominated to the Texaco board in a historic way.

Out of Texaco's troubles with Pennzoil and its struggle with Mr. Icahn was born a delicate alliance of sorts between Texaco management and some of the company's leading institutional investors.

Institutional investors helped Texaco management win control of the company against Mr. Icahn last year. In return, Texaco officials agreed to give institutional shareholders more input on the board of directors.

For a time, however, it seemed as though Texaco executives would not honor their agreement, and relations with institutional shareholders soured. Then Texaco selected Mr. Brademas in late January.

Mr. Brademas declined to be interviewed for this story; he does not as a matter of policy discuss his board activities.

As a result of the appointment, Mr. Hanson and Rich Koppes, general counsel for the California fund, have said the retirement system would withdraw its shareholder resolution calling for a permanent shareholders committee to be created at Texaco.

In an interview last week, however, Mr. Koppes declined to make a full commitment on a date, clearly reserving the leverage the pension fund needs to act if the rather fluid situation at Texaco changes dramatically. ■

Indexers grab

Continued from page 4

business, only about 10% of Bankers' new fixed-income business was for index funds. The firm's active fixed-income approach is based on sector and issue selection with an emphasis on yield, Ms. Kolakowski said.

Much of second-place Northern Investment's new bond business, however, was for indexed and otherwise structured products, including a roughly $225 million dedicated portfolio, said Kevin Russell, director. Many clients want to structure their bond investments to track their liabilities to some degree, he said.

Northern Investment uses fixed-income derivatives, as do the two firms that followed it in the rankings, Discount Corp. of New York Advisers and Pacific Investment Management Co., Newport Beach, Calif.

Security Capital Management Inc., Stamford, Conn., which runs index funds enhanced with arbitrage between bonds and futures, was the leader among midsize firms. The success of its strategy is "a question of hitting a whole series of singles," said Bob Brewer, chief investment officer. The strategy has been successful, he said, to the degree that $249 million of its $346 million net new fixed-income business came from existing clients.

Consistent Asset Management Co., Wilmington, Del., followed with $300 million. The firm uses quantitative analysis to move assets between Treasury securities and cash. "It's a fairly defensive style," said Mark Davies, vice president. "Clients have an appetite for safety."

Hoisington Investment Management Co., Houston, a risk-averse, market-timing manager, came in next with $167 million, followed by Lotsoff Capital Management, Chicago, which uses futures and options to control interest rate risk. Lotsoff had $144 million in new business.

Among small firms, the fixed-income leaders were Greenwich Asset Management, Greenwich, Conn., and Wilkinson Boyd Asset Management Inc., New Canaan, Conn., with $40 million each, and Govaars and Associates, Newport Beach, Calif., with $30 million.

Rankings of managers' new balanced business included some tactical asset allocation accounts. Both strategies involve a mix of stocks, bonds and cash, but traditional balanced accounts are more likely to be static; tactical asset allocation makes more frequent moves among asset classes.

Wells Fargo and Mellon Capital included their tactical business under balanced, and they were first and second in the rankings for large firms — Wells Fargo with $3.9 billion and Mellon Capital with $830 million.

Avatar Associates, New York, another tactical allocator, included its assets under equities. ■

ScoreCARD

Most new indexed fund business

Net gain ($ millions)

	Total indexed	Equity funds	Fixed-income funds
Wells Fargo Investment Advisors	5,926	5,238	688
Bankers Trust	4,936	4,814	122
State Street Bank	2,630	2,500	130
Northern Investment Mgmt.	1,798	349	1,449
Mellon Capital Mgmt.	1,235	785	450
Morgan Grenfell Capital Mgmt.	355	355	0
Security Capital Mgmt.	346	0	346
Lehman Mgmt.	330	0	330
Boston Co.	310	281	29
Axe-Houghton	279	279	0

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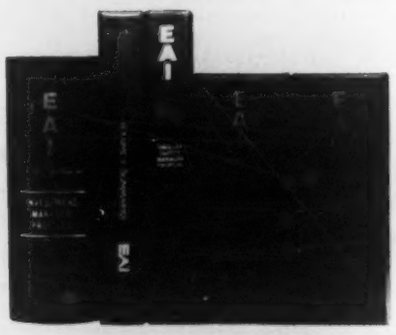

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